

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall, 16th Floor
Sacramento, California 95814**

RH05049272

June 6, 2006

FINAL TEXT OF REGULATION

Amend Title 10, California Code of Regulations, Chapter 5, Subchapter 7.7, Section 2697.6 to
read as follows:

§ 2697.6. Earthquake Policies, Coverage Types and Limits

- (a) The Authority must offer, in accordance with the provisions of Division 2, Part 1, Chapter 8.5, of the Insurance Code, a basic residential earthquake insurance policy to any owner of a qualifying residential property, as long as the qualifying residential property meets the eligibility standards of the Authority and the owner has first secured a residential property insurance policy from a participating insurer.
- (b) The Authority must renew any basic residential earthquake insurance policy it has written, provided that the Authority receives payment of the applicable renewal premium on or before the expiration date stated in the policy. The Authority must nonrenew, rescind, or cancel a policy on the grounds that the qualified residential property is no longer covered by an underlying residential property insurance policy issued by a participating insurer.
- (c) No policy issued by the Authority will provide coverage in the event there is no underlying residential property insurance policy issued by a Participating Insurer at the time of loss. In that case, any unearned premium shall be returned to the policyholder on a pro rata basis.
- (d) The types and coverage limits of Authority policies shall be as follows:

1.	Dwelling policy:	15% Deductible
	Coverage A (Dwelling)	Equal to the Coverage A (or its equivalent limit) of underlying residential property insurance
	Coverage B	Not available
	Coverage C (Personal Property)	\$5,000
	Coverage D (Loss of Use)	\$1,500
	Coverage E (Limited Building Code Upgrade)	\$10,000

The CEA may also, at its option, offer dwelling policyholders an additional \$10,000 in coverage for Limited Building Code Upgrade.

2.	Individual condominium or cooperative unit policy:	15% Deductible
	Coverage A (Real Property)	\$25,000
	Coverage B	Not available
	Coverage C (Personal Property)	\$5,000
	Coverage D (Loss of Use)	\$1,500
	Coverage E (Limited Building Code Upgrade)	\$10,000
	Coverage F (Loss Assessment (condominium value > \$135,000))	\$50,000
	Coverage G (Loss Assessment (condominium value < \$135,000))	\$25,000 or \$50,000

3.	Renter's policy:	15% Deductible
	Coverage A	Not applicable
	Coverage B	Not applicable
	Coverage C (Personal Property)	\$5,000
	Coverage D (Loss of Use)	\$1,500

(e) In issuing its optional-limits basic residential earthquake insurance policies, the Authority must provide full financial backing in accordance with a written plan of finance. The plan of finance must operate effectively to protect policyholders of the Authority's base-limits residential earthquake insurance policies from any financial liability arising from any offer of policy limits in excess of the base limits. The plan of finance may include the purchase by the Authority of reinsurance and financial guaranty insurance on terms and at the limits that the Authority may find reasonable and appropriate, to secure the payment of claims obligations and expenses that may arise under its optional-limits basic residential earthquake insurance policy and related contracts of reinsurance.

Upon the governing board's approval in a written finding of an appropriate plan of finance that will protect policyholders of the Authority's base-limits residential earthquake insurance policies from any financial liability arising from the sale or issuance of a basic residential earthquake insurance policy with limits in excess of the Authority's base-limits policies and which will neither rely on nor impair the Authority's available capital, as available capital is defined in Insurance Code Section 10089.5, subdivision (b), the Authority may offer the optional coverage types and coverage limits in paragraphs 1, 2, and 3, below, subject to the provisions of Section 2697.4.

The optional coverage limits for Coverages C and D described in paragraphs 1, 2, and 3, below, are stated as gross limits that include the base limits provided in subdivision (d) of this section, and those portions of the gross limits that exceed the applicable base limits are to be written in excess of the base limits.

1. Dwelling Policy only: Optional deductible amount for Coverage A, and additional eExcess contents (Coverage C), and additional living expense (Coverage D) limit options. A dwelling policy that does not carry a 10% deductible must be issued at a 15% deductible. The lowered policy deductible and increased limits for Coverage C and Coverage D may be offered in any of the following amounts(all limits that are expressed in this section as higher than base limits are to be written in excess of base limits, above, but are expressed below as gross limits that include the base limits:

(i)	Coverage A (Dwelling) <u>Optional decreased deductible</u>	Equal to the Coverage A limit (or its equivalent limit) of underlying residential property insurance <u>10% of Coverage A limit</u>
	Coverage B	Not Available
(ii)	Coverage C (Contents)	\$25,000, <u>\$50,000, \$75,000, or \$100,000</u>
(iii)	Coverage D (Loss of Use)	\$10,000 <u>or \$15,000</u>
	Coverage E (Limited Building Code Upgrade)	\$10,000
(ii)	Coverage A (Dwelling)	Equal to the Coverage A limit (or its equivalent limit) of underlying residential property insurance
	Coverage B	Not Available
	Coverage C (Contents)	\$50,000
	Coverage D (Loss of Use)	\$10,000
	Coverage E (Limited Building Code Upgrade)	\$10,000
(iii)	Coverage A (Dwelling)	Equal to the Coverage A limit (or its equivalent limit) of underlying residential property insurance
	Coverage B	Not Available
	Coverage C (Contents)	\$75,000
	Coverage D (Loss of Use)	\$15,000
	Coverage E (Limited Building Code Upgrade)	\$10,000

(iv)	Coverage A (Dwelling)	Equal to the Coverage A limit (or its equivalent limit) of underlying residential property insurance
	Coverage B	Not Available
	Coverage C (Contents)	\$100,000
	Coverage D (Loss of Use)	\$15,000
	Coverage E (Limited Building Code Upgrade)	\$10,000

~~(v) Option for 10% deductible for Dwelling Policy only: A 10% deductible option is available for all optional coverage limits combinations that are available for a dwelling, including base limits residential earthquake insurance policies. No 10% deductible option is available for condominium policies (including cooperative unit) or renter's policies. A dwelling policy that does not carry a 10% deductible must be issued at a 15% deductible. The Authority may determine administratively, through regular adoption of its plan of operations or policy forms, how to calculate and apply the deductible amount to losses incurred under Authority policies.~~

2. Individual Condominium and Cooperative Unit Policy only: Excess contents (Coverage C), and additional living expense (Coverage D) options may be offered in any of the following amounts for Coverage C and Coverage D (all limits expressed in this section are to be written in excess of base limits, above, but are expressed below as gross limits including the base limits):

(i)	Coverage A (Real Property)	\$25,000
	Coverage B	Not Available
	Coverage C (Contents)	\$25,000, <u>\$50,000, \$75,000, or \$100,000</u>
(ii)	Coverage D (Loss of Use)	\$10,000 <u>or \$15,000</u>
	Coverage E (Limited Building Code Upgrade)	\$10,000
	Coverage F (Loss Assessment (unit value > \$135,000))	\$50,000
	Coverage G (Loss Assessment (unit value \$135,000))	\$25,000 <u>or \$50,000</u>

(ii)	Coverage A (Real Property)	\$25,000
	Coverage B	Not Available
	Coverage C (Contents)	\$50,000
	Coverage D (Loss of Use)	\$10,000
	Coverage E (Limited Building Code Upgrade)	\$10,000
	Coverage F (Loss Assessment (unit value > \$135,000))	\$50,000
	Coverage G (Loss Assessment (unit value \$135,000))	\$25,000 or \$50,000
(iii)	Coverage A (Real Property)	\$25,000
	Coverage B	Not Available
	Coverage C (Contents)	\$75,000
	Coverage D (Loss of Use)	\$15,000
	Coverage E (Limited Building Code Upgrade)	\$10,000
	Coverage F (Loss Assessment (unit value > \$135,000))	\$50,000
	Coverage G (Loss Assessment (unit value \$135,000))	\$25,000 or \$50,000

(iv)	Coverage A (Real Property)	\$25,000
	Coverage B	Not Available
	Coverage C (Contents)	\$100,000
	Coverage D (Loss of Use)	\$15,000
	Coverage E (Limited Building Code Upgrade)	\$10,000
	Coverage F (Loss Assessment (unit value > \$135,000))	\$50,000
	Coverage G (Loss Assessment (unit value \$135,000))	\$25,000 or \$50,000

3. Renter's Policy only: Excess contents (Coverage C) and additional living expense (Coverage D) options for Coverage C and Coverage D may be offered in any of the following amounts (all limits expressed in this section are to be written in excess of base limits, above, but are expressed below as gross limits including the base limits):

(i)	Coverage A	Not applicable
	Coverage B	Not applicable
	Coverage C (Personal Property)	\$25,000, <u>\$50,000, \$75,000, or \$100,000</u>
(ii)	Coverage D (Loss of Use)	\$10,000 <u>or \$15,000</u>
(ii)	Coverage A	Not applicable
	Coverage B	Not applicable
	Coverage C (Personal Property)	\$50,000
	Coverage D (Loss of Use)	\$10,000
(iii)	Coverage A	Not applicable
	Coverage B	Not applicable
	Coverage C (Personal Property)	\$75,000
	Coverage D (Loss of Use)	\$15,000

(iv)	Coverage A	Not applicable
	Coverage B	Not applicable
	Coverage C (Personal Property)	\$100,000
	Coverage D (Loss of Use)	\$15,000

(f) For individual condominium unit policies and in accordance with its underwriting or eligibility guidelines, the Authority will issue earthquake loss assessment coverage in connection with its basic residential earthquake insurance policy for condominium owners in the amount of \$ 50,000.00 (fifty thousand dollars) for a unit valued at more than \$ 135,000.00 (one hundred thirty-five thousand dollars) and in the amount of \$ 25,000.00 (twenty-five thousand dollars) or \$ 50,000.00 (fifty thousand dollars) for a unit valued at \$ 135,000.00 (one hundred thirty-five thousand dollars) or less. The value of the land on which a unit is constructed is to be excluded when determining the value of the condominium unit.

Note: Authority cited: Sections 10087, 10089.5(c), 10089.11, 10089.20 and 10089.26(a)(1), Insurance Code. Reference: Sections 10089, 10089.11(a), 10089.28(b) and 12921, Insurance Code.